

CALIFORNIA PUBLIC UTILITIES COMMISSION
Water Division

Sale and Transfer of a Water System or Sewer System

Standard Practice U-24-W

San Francisco, California
March 2004

A. Water System Transfer Application

1. This document has been prepared as an aid in the preparation of a formal application for approval of the sale and transfer of a water or sewer system. It is designed to assist an applicant in preparing a complete application and in complying with statutory requirements. It also is to be used to enable the Commission's staff to expedite its investigation.
2. An application must comply with the Commission's Rules of Practice and Procedure, particularly those rules shown in Articles 2, 4, 5, 8, and 23, and Rule 17.1 (Preparation and Submission of Environmental Impact Reports). The filing fee for the application is \$75 if the transfer is to another Commission-regulated utility or a Mutual Water Company. No fee is required if the sale is to a district.
3. For a water system the applicant must obtain the necessary permits from the State Department of Health Services (DHS) or County and local Health Departments. The water system must comply with the applicable agencies' requirements and must meet acceptable engineering practices.
4. The Commission does not necessarily hold a hearing on an application for a water system sale, but may issue its decision on an ex parte basis. Hearings may not be required where the application is relatively complete and where there are not parties protesting, or likely to protest, the granting of the application.
5. With respect to the mechanics of the preparation of an application:
 - Paper size: The size of this guide, 8½ x 11 inches, is required.
 - Use only one side of the paper.
 - Double space all text material. Single space tabulated data.
 - PUC requires an original and 8 conformed copies.
 - Appendix A contains a fill-in-the blank application form.
6. With respect to the type of business organization to be set up, applicants should be advised that under the Commission's regulatory jurisdiction, staff members must have access all books and records of a public utility and a public utility corporation must obtain Commission authority to issue its stock. For these reasons the staff suggests that applicants explore the feasibility of establishing the utility as an entity doing business only in California (such as a domestic corporation described below). The following paragraphs describe various forms of ownership of water and sewer companies.
 - a. Sole proprietorship means that an individual owner has sole control over disposition of the property and is sole recipient of any benefits that flow from it. However, the owner is also liable for any debts or other obligations associated with the property, such as taxes and assessments. If the utility is acquired by a married person, in California the utility becomes community property co-owned with the spouse, and both

parties must agree to the sale. A sole proprietorship reports business income in his or her own individual income tax return.

- b. Partnerships exist when two or more people own a water or sewer system and tenancy in partnership is specified. Partnerships do not pay separate income tax. Each partner is responsible for paying income tax on income received from the system. Each partner is also liable for the partnerships debts. When a partner dies, his or her ownership goes to the surviving partners, although the heirs of the deceased partner are entitled to the deceased's share of business profits.
- c. Tenancy in common is created when two or more persons take title and either tenancy in common is specified or no other tenancy is specified. Tenants in common can own fractional shares of the water or sewer system, sharing in the revenues and costs based on those ratios. When a tenant dies, ownership passes to the heirs based on fractional ownership.
- d. Joint tenancy is a form of co-ownership that must meet certain legal requirements to be effective. All joint tenants must take title at the same time, with each receiving an equal interest (no unequal shares) and parties must claim possession with a right of survivorship. A joint tenant cannot transfer ownership by means of a will. Even if the transfer is stated in the will, ownership by the other joint tenants is paramount. Similarly a joint tenant cannot sell his or her interest without terminating the joint tenancy with respect to his or her interest. If there were only two joint tenants, the remaining owner and new owner would be tenants in common. If there were more than two joint tenants, the remaining joint tenants would continue the joint tenancy and the new owner would be a tenant in common.
- e. A corporation is classified as domestic if it only operates in one state and as foreign if it does business in a state other than the state of incorporation. A corporation is owned by its shareholders and is recognized as a separate legal entity that can own, lease and convey real property. Day-to-day operations are controlled by the officers, who are answerable to a board of directors. The advantage of a corporation is that the officers, directors and shareholders are generally not liable for corporate decisions and corporate debts. The disadvantage is that corporate income is taxed twice. This may be effectively avoided by the corporation if the shareholders are officers by paying the shareholders in salary rather than dividends. If the corporation qualified as a Subchapter S corporation under the internal revenue code income is only taxed once.
- f. A limited liability corporation is owned by its members. It offers the control and income distribution benefits of a general partnership with the liability protection of a corporation.

7. As an aid in preparing an application, the Commission's Water Division staff personnel would be pleased to review a single draft copy of a proposed application before the filing is made. In this manner, the staff can make comments on the contents of the proposed application, which may indicate the need for any additional data or the elimination of any unnecessary information. Send the copy to Water Division, 505 Van Ness Avenue, Civic Center, San Francisco, California 94102.
8. After an application has been filed and assigned a number, all correspondence concerning that proceeding should show the number in the upper right-hand corner.

Appendix A

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF
CALIFORNIA

Application of _____)

_____)

doing business as _____)

_____)

to sell and _____)

_____) (For Commission use
only)

to buy the water system in _____)

_____ County)

_____)

APPLICATION

This application of _____

(seller(s))

whose address and telephone number is

_____, (_____) _____

owner(s)

of the water system known as

_____ and

(buyer(s))

whose address and telephone number is

_____ ,

(_____) _____ respectfully shows:

I

That communications in regard to this application are to
be addressed to _____ whose
address

(person)

Appendix A

is	
	,
	(zip code)
telephone number (____)	_____.

Appendix A

II

That the application is made pursuant to Sections 851 through 854 of the California Public Utilities Code and Rules 1 through 7, 15 through 17, 35, 36, 45 through 48 and 88 of the Commission's Rules of Practice and Procedure for authority to transfer the water system operating in the area described as

_____ in or near the
community
of _____, serving

(city)
(number)
customers.

III

The seller(s) was/were granted a Certificate of Public Convenience and Necessity by Decision
(D.) _____, dated _____, in
Application (A.) _____, filed
_____.

OR

Authority to acquire the system was granted to sellers by
D. _____, dated _____, in
A. _____, filed _____. The water
system operates under a franchise granted by
_____.

(if applicable)

IV

The water system consists of (brief description):
Land:

Appendix A

Wells Number: _____, Diameter: _____
_____ Depth: _____ Other Source of
Supply: _____

Pumping Equipment: Number: _____ HP: _____ capacity--
GPM: _____ Water Treatment Equipment: _____

Reservoirs and Tanks: Number: _____
Capacity: _____

(gallons)
Water Mains: _____ feet. Services: _____

(number)
Meters: _____ installed, _____ available for
installation: _____ Fire hydrants: _____
Buildings: _____

(number)
_____ Office furniture and equipment: _____

Transportation equipment: _____

Other equipment: _____

V

The original cost of property being transferred is
\$_____, and the depreciation reserve as of _____

(date)

Appendix A

is \$_____, resulting in a net book cost of \$_____. The selling price is \$_____ with these terms for payment:

—.

A copy of the transfer agreement is attached hereto as Exhibit A.

A copy of the proposed deed to real property is attached hereto as Exhibit B.

VI

Seller(s) desire(s) to dispose of the system because

—.

and buyer(s) desire(s) to acquire the system because

—.

Buyer(s) has/have had the following experience which qualifies him/them to operate the system:

—.

—.

VII

Seller's(s') most recent annual report, for year ending _____, is attached hereto as Exhibit C.

Buyer's(s') financial net worth statement is attached hereto as Exhibit D.

Buyer's(s') occupation is _____ and present employment is _____.

Buyer's(s') employment address and telephone number is

Appendix A

_____, (____)_____.
Buyer's(s') residential address and telephone number is

_____, (____)_____.

VIII

Buyer(s) propose(s) to adopt the presently filed tariffs of the seller(s), a copy of which sellers) has available to furnish to buyer(s). Buyer(s) agree(s) to be bound by any outstanding Commission decisions and/or directives involving the water system being transferred. Buyer(s) will be furnished the utility's copies of the following or informed of their availability at the Commission's headquarters, 505 Van Ness Avenue, San Francisco, California 94102:

- (a) General Order 96-A, Filing and Posting of Tariff Schedules
- (b) General Order 103, Rules Governing Water Service, Including Minimum Standards for Design and Construction
- (c) Uniform System of Accounts for Class D Water Utilities
- (d) Rules of Practice and Procedure
- (e) Public Utilities Code of the State of California

IX

Seller(s) and buyer(s) warrant that:

- (a) There are no customer deposits to establish credit.
OR
Buyers will refund customer deposits when due.
- (b) There are no main extension advances
OR
All refunds due on main extension advances have been paid on a current basis and none are overdue.
- (c) On main extension advances which will fall due in the
future, buyer(s) agree(s) to pay the refunds when due.

Appendix A

(d) The condition of the system is good.

OR

The system needs modification and repair to bring it
up

to the standards of General Order No. 103 at an
estimated cost of \$ _____. These funds
(are) (are not) available. The work will be
performed

by the (seller(s)) (buyer(s)). Source of Funds is

.

X

Seller(s) and buyer(s) accept joint responsibility for
informing the community of customers about this application
after filing.

WHEREFORE, applicants request an ex parte order
authorizing seller(s) to transfer and buyer(s) to acquire the
water system described and under conditions stated herein and
that seller(s), upon compliance with such an order, be
relieved of any public utility responsibilities related to the
system being transferred.

I and each one of us whose names are shown as application
seller(s) and buyer(s) in the above-entitled matter hereby
declare and say:

That I and each one of us have read the foregoing
application and know the contents thereof; that the statements
are true of my own knowledge, except as to the matters which
are stated on information or belief, and as to those matters
which I believe them to be true.

I and each one of us declare under penalty of perjury
that the foregoing is true and correct. This has been
executed at the place and on the date shown on the signature
line. (Each named applicant must sign.)

Signatures

City and State

Date

Appendix A

Seller:	_____	_____

Seller:	_____	_____

Buyer:	_____	_____

Buyer:	_____	_____

Appendix A

NOTE:

The following exhibits must be attached to all applications for transfer:

Exhibit A - Copy of the sale agreement. If there is no written agreement, it should be so stated in the application and other documentation of sale attached, such as bill of sale, escrow agreement or note.

Exhibit B - Copy of the proposed deed to the real property transferred.

Exhibit C - Copy of the last annual report of seller(s) or a copy of the latest available balance sheet and income statement of seller(s).

Exhibit D - Copy of buyer's(s') financial net worth statement, or, if operating as a utility, the latest available balance sheet and income statement.

If the purchase price is more than the net book cost, the following statement must be included in the application, preferably as a letter exhibit signed by the purchaser.

Purchaser is paying \$_____ more than the original cost of net depreciation and contributions. He understands that rates will be based upon the depreciated original cost of the plant, excluding contributed plant, and not on the purchase price.

A check for \$75 must accompany the applications for transfer of the Certificate of Public Convenience and

Appendix A

Necessity, when sold to an individual, as contrasted to a public entity.

Following review of the application by Commission staff the applicant will be notified regarding the adequacy of the information contained in application. The applicant will be provided the text of a notification to be sent each customer. Customers will be given 30 days to make any objections to the Commission, at 505 Van Ness Avenue, San Francisco, CA 94102.

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